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SUBJECT: ARGENTINA: KIRCHNER INSIDER CARLOS ZANNINI ON THE  
GOA'S POLITICAL STRATEGY

REF: BUENOS AIRES 991 AND PREVIOUS

Classified By: AMBASSADOR E. ANTHONY WAYNE FOR REASONS 1.4 (B) AND (D)

¶1. (C) Summary. "We must abandon pre-conceived notions about each other...and work to identify new areas of cooperation," President Cristina Fernandez de Kirchner's (CFK) Legal and Technical Secretary Carlos Zannini told Ambassador Wayne and Carl Meacham, Senior Professional Staff Member of the Senate Foreign Relations Committee in a meeting on August 7. Just back from a trip to Minnesota, Zannini acknowledged enthusiastically that such exchanges help to promote understanding between the U.S. and Argentina. Zannini indicated that Argentina's strong macroeconomic recovery under former President Nestor Kirchner (NK) had generated public expectations that are difficult to fulfill, especially in a "political culture not known for its patience." As a result, CFK's domestic priorities focus on "accelerating income redistribution" and the creation of decent jobs. Zannini explained that CFK's political agenda was also focused on improving institutional quality in order to build civil society's respect for democratic institutions, such as the Congress and the judicial system, all the while "maintaining respect for the executive."

¶2. (C) On the agricultural conflict, Zannini acknowledged that the Kirchner administrated communicated their political aims poorly, but that CFK would never admit she was wrong out of fear that she appear "weak". Zannini stated that the GOA would not reintroduce a variable export tax proposal to the Congress in the short-term, and indicated that Agriculture Secretary Carlos Cheppi has been instructed to do a better job of explaining the GOA's agricultural policy agenda. "Our strategy is to communicate more and to be more open," Zannini stated. Because Zannini is the surviving official closest to CFK and NK, we are reporting his words in detail. End Summary.

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Zannini on Recent Trip to U.S  
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¶3. (C) On August 7, Ambassador Wayne, accompanied by Carl Meacham, Senior Professional Staff Member of the Senate Foreign Relations Committee, met with Legal and Technical Secretary Carlos Zannini, a member of President Cristina Fernandez de Kirchner's (CFK) inner circle. The meeting has originally been set up to talk about Zannini's recent trip to Minnesota, where his son had completed a one-year high school exchange program. Zannini stated that he enjoyed visiting Minnesota and meeting his son's host family. He was struck by Minnesota's "independent spirit" and abolitionist history, noting that Minnesota entered the union as a free state in ¶1858. In addition, he stated that he was impressed with the

entrepreneurial spirit of U.S. agro-business and was surprised by the number of cereal factories located in Minnesota. He said he was also pleased by how much his son matured as a result of the experience, noting that he and his wife had been "worried" that his son did not seem to have much direction in life. Now, his son has developed a respect for social and legal norms, for working hard at his studies, and now values things that he had taken for granted in Argentina, he said.

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Zannini: "We Must Abandon Preconceived Notions"  
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¶4. (SBU) The Ambassador stated that exchanges such as these help to promote understanding among our two countries. Meacham added that since Argentines travel to the United States frequently, they understand the U.S. better than Americans understand Argentina. He explained that the purpose of his visit was to increase understanding in the U.S. Congress of Argentina's reality and to learn how the Congress could help improve bilateral relations.

¶5. (C) Zannini agreed that more exchanges are needed to improve mutual understanding, stating that "we must abandon preconceived notions about each other." He referred to a recent TV episode of "The Simpsons" where one of the characters likened former Argentine President Juan Peron to Hitler. (Note: According to press reports, the Simpsons aired a TV episode where characters discussed their choices of political candidates. One character stated that he could "really go for some kind of military dictator, like Juan Peron. When he disappeared you, you stayed disappeared.")

Zannini indicated that many Argentines took deep offense at this stereotyping, but that for him, it was illustrative of how the typical American views Argentina. He said not to worry, as "Argentina does the same thing with the U.S." The Ambassador indicated that this is why the USG has invited Argentine VIPs like Zannini to visit the United States. Such visits, he said, help the U.S. understand what is going on in Argentina. Meacham added that it is in the spirit of enhancing mutual understanding that he would like to see more senior GOA visits to the United States.

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Importance of State-Province Relations  
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¶6. (SBU) Meacham highlighted the importance of people-to-people exchanges. He pointed out that Chile has worked very hard to cultivate relationships with various states in the United States that share similar characteristics with its provinces. The Ambassador noted that promoting state-provincial partnerships was a central theme for Western Hemisphere Affairs Assistant Secretary Tom Shannon's visit to Argentina in July. Zannini agreed, saying that the U.S. and Argentina agree on "the big issues" such as the fight against terrorism and drugs and the importance of peacekeeping missions. He said that now, the GOA and the USG must identify new areas of cooperation.

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Argentina post-2001 Crisis  
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¶7. (C) Meacham noted that Senator Richard Lugar (R-Indiana) has a strong agricultural constituency and is interested in learning more about Argentina's situation after the recent controversy surrounding agriculture. Zannini began by explaining Argentina's reality since the economic crisis of 2001-02. He stated that "the only good that came out of the economic crisis is that it did not break democratic institutions." When President Nestor Kirchner came to power in 2003, Argentina had to resolve its macroeconomic situation. The GOA had a very difficult time explaining its situation to the rest of the world. He said that he was ashamed ("me da verguenza") when he had to explain why

Argentina can not pay its debts. "We could pay off our debts, but then we would all die of hunger. As a result, we had to tell the world that we were not going to honor our contracts. If we don't grow, we can't pay," he stated. Regarding bond holdouts, he maintained that Argentina had already offered a debt exchange which the majority of bondholders accepted. He acknowledged that remaining bond "holdouts" have launched collection campaigns against Argentina, but insisted that many of them "bought Argentine bonds (in secondary markets at substantial discounts) knowing full well we could not pay." "And then, they call us populist!", he complained.

¶18. (C) Meacham observed that that is how many in the U.S. Congress see Argentina -- that Argentina does not pay its debts. He stressed that this is the reason why public diplomacy is so important. Zannini acknowledged that CFK's main challenge now is the task of rebuilding its relationship with the world, stating that "the world is an opportunity for Argentina." Meacham reiterated that visits to the U.S. by the President and others would send "an important signal" to Washington, adding that exchanges help Washington better understand Argentina's reality.

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Doha  
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¶19. (C) "People claim that Argentina's position in the Doha round is one of ideology, but that is not the case," Zannini said. He argued that Argentina is simply protecting its domestic industry until it is strong enough to take on world-class competitors. "Our industry has to be protected so that they can one day compete."

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GOA's Challenge: Managing Expectations...  
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¶10. (C) Meacham then asked about the challenges that the GOA faced after the agricultural conflict (reftel). Zannini indicated that Argentina's strong macroeconomic recovery under former President Nestor Kirchner (NK) enabled his wife,

CFK, to win the Presidential elections with 45.6% of the vote. However, NK's stewardship of Argentina's recovery had also generated new public expectations that are difficult to fulfill, he indicated. Now that Argentina's macroeconomic fundamentals are sound, CFK's domestic priorities focus on "accelerating income redistribution" and the creation of decent jobs. He noted that under NK, hundreds of thousands of jobs had been created, employing one-third of the workforce. However, it is easier to open a factory than to ensure that labor has safe and decent work conditions, he stated.

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...In a Political Culture not Known for its Patience  
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¶11. (C) "Argentina's situation is not the same as Brazil's or Chile's", Zannini continued. Argentina, historically, had a strong middle class with "great equalizing forces" that ensured socio-economic mobility. Immediately after the 2001-02 financial crisis, over half of the population lived below the poverty line. The GOA had to address immediate needs by providing the poor with food. Now that the immediate crisis is over, they want jobs, he said. The Kirchner administration is running up against the expectations that these problems can be resolved quickly, he explained. A great percentage of the population is still poor, he noted, adding that if the government does not help these people, they will despair. "Argentina's political culture is not known for its patience," he quipped.

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The Tango Effect

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¶12. (C) Zannini recounted the visit of Google's President to Argentina where he announced that Google would base its South American headquarters in Argentina. According to Zannini, when leading conservative daily La Nacion asked why, he replied that the country's human capital, strategic geographic position, high number of university graduates, and economic potential made the decision to invest very easy. Insisting, the reporter asked, so it's not because of the dollar's favorable exchange rate with the Argentine peso. Google's President said "no, we can't base investment decisions on such temporal factors as a favorable exchange rate." Zannini explained that "it is very difficult to convince Argentines that there are positive things about their country. This is what we call The Tango Effect." He added that Argentines often have very negative expectations for the future.

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The K project defined?  
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¶13. (C) Zannini indicated that the GOA would continue advancing its political agenda to improve conditions for workers, the lower middle class, and the unemployed. He asserted that Argentina "cannot return to an era characterized by income inequality." He stated that Argentina aspires to "the American dream where just because you are poor doesn't mean that you will remain poor." Zannini explained that CFK's political agenda was also focused on improving institutional quality in order to build civil society's respect for democratic institutions, such as the Congress and the judicial system, all the while "maintaining respect for the executive."

¶14. (C) Zannini added that "our goal is to continue to improve conditions of the Argentine people; strengthen the situation of the poor by providing direct assistance, improving labor conditions, and promoting domestic consumption. He noted that Argentina has great potential, highlighting that Argentine labor is among the most productive in the world. He stated that the GOA will continue to pursue these same political objectives, but through different means, focusing on alliances in the Congress and reaching out to other sectors as well.

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Lessons Learned from the Ag Conflict  
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¶15. (C) Turning to the agricultural conflict, Zannini acknowledged that the Kirchner administrated communicated their political aims poorly. "It was a mistake to think that

the situation is the same as in 2003," he said. He pointed out that the agricultural sector did not balk when, in November 2007, then-President Nestor Kirchner increased agricultural export tariffs from 27%-35%. Thanks to this policy measure, he said, Argentina is in a stronger fiscal position today. The GOA decided to move forward with a variable agricultural export scheme to capture a share of record-high agricultural profits. He asserted that the irony of all this is that the government wanted to be a partner with the countryside, and instead "we got a political dispute."

¶16. (C) Zannini stated that it is unfair for the rural sector to claim that the GOA does not have an agricultural policy. Argentina's weak currency has made expanding exports more attractive to domestic producers. Domestic fuel prices are significantly below world prices, which in effect served as a subsidy to the agricultural sector. If the GOA were to allow fuel and food prices to match world prices, Argentina's economy would "fall once again." He indicated that the GOA needs "to do a better job at communicating these facts in a transparent and technical way, to build a social consensus on these issues, arguing that food and energy prices "have to be

in line with Argentina's reality, not the world's."

¶17. (C) Zannini claimed that if the GOA allowed the market to set prices, bread would be ten times more expensive and energy four times more expensive in Argentina than it is now. He asserted that the GOA's variable export tax proposal was theoretically sound. The GOA is concerned that high international prices for soy had prompted agricultural producers to shift production out of wheat and corn, which Argentines consume, to soy, which Argentines don't consume. The mobile tax proposal was intended to encourage domestic ag producers to increase their production of wheat and corn by increasing taxes on soy and reducing taxes on wheat and corn, he explained. He acknowledged, however, that the GOA pushed this proposal without building a social consensus. He stated that the GOA is now working to get out of this mess, and that Secretary of Agriculture Carlos Cheppi has been instructed to do a better job of explaining the GOA's agricultural policy agenda. "Our strategy is to communicate more and be more open," Zannini indicated.

¶18. (C) Regarding the GOA's defeat in the Congress, Zannini asserted that the outcome was "an advance in institutional quality" and that it was "not a dishonorable loss" for the Kirchner administration. He noted that the GOA won in the House and tied in the Senate. He pinned the loss in the Senate to Senators who have a lot of bad blood with the Kirchner administration and are looking to weaken CFK, such as former Presidents and current Senators Carlos Menem and Adolfo Rodriguez Saa. Meacham asked why CFK did not acknowledge that she made a mistake in her August 2 press conference. Zannini explained that if she publicly admitted to such a mistake, the people would view her as "weak" and would ask why she allowed the conflict to go on for 120 days. Meacham noted speculation surrounding CFK's ability to wield influence or power. Zannini dismissed these concerns, and optimistically predicted a moderate electoral triumph for the Kirchners in 2009 mid-term elections.

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Dirty War Legacy  
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¶19. (C) There is another important undercurrent to understand about this crisis, Zannini explained. During the 1976-83 military dictatorship, 30,000 people were killed without trial, without any rights. A large segment of Argentine society consented to this. In 1982, a reconciliation process began that resulted in silencing and hiding this difficult past. Thirty years later, there had been no justice or reconciliation. The Kirchner administration believed that the solution to deal with this was to overturn amnesty laws and allow the justice system to judge those accused of human rights violations. We are now embarking on a different kind of reconciliation -- this time with justice, he said. Those who oppose this process supported the agricultural sector, he asserted. "We must learn to resolve our differences in democracy," he concluded.

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Cobos  
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¶20. (C) Asked about Cobos's future, Zannini opined that Cobos's decision was a political mistake and predicted that the people who support him now will not continue to do so over time. The Kirchner administration, however, will not impede him from carrying out his duties as Vice President, because it wants to respect the institution of the Vice Presidency. He said that he believed that Cobos's vote weakened the institution of the Vice Presidency, noting that when Cobos decided to be CFK's running mate, he had chosen to support the Kirchners' political agenda.



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GOA Won't Reintroduce Ag Bill in the Shrt-Term  
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¶21. (C) Asked whether the GOA would again introduce a variable export tax proposal to Congress, Zannini indicated that the GOA would not do so in the short term, but said "there are other possibilities." He asserted that those who objected to the variable export tax proposal later realized that the proposal presented by the Chamber of Deputies is better than the current situation. He explained that one reason why soy commanded \$600 a ton is because the market had already calculated that Argentine soy exporters would have to pay the tax. After the vote, the price fell to below \$400 due in part, he thought, to development in Argentina. He claimed that soy exporters would have earned more had they accepted the tax and sold soy at \$600. He said that now that the market is at \$360, they are earning less. He mused at the realization that "the market did what the government couldn't do."

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Aerolineas Argentinas: "Let Congress Decide"  
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¶22. (C) Turning to investment matters, Zannini jokingly said that "we judge the success of U.S. Ambassadors by how much U.S. investment is brought into the country during their tenure." The Ambassador observed that U.S. investment in Argentina had moderately increased in the 20 months he has been in Argentina. Zannini acknowledged that U.S. investment in high tech has been very beneficial for Argentina, and lamented that U.S. companies had not earlier invested in public services. He noted that European companies invested heavily in the public services sector insisting on an absence of regulations and real demands on service delivery.

¶23. (C) He stated that the GOA believes that these public service companies should provide good service, and complained that many of them did not live up to these expectations. This explains why the GOA has proposed nationalizing Aerolineas Argentinas, he said. Tourism is a key driver of economic growth, contributing to 6-7% of Argentina's GDP; however, Aerolineas Argentinas has treated tourists poorly, he noted. Since Argentina is not like the American market where an airline company can easily enter the market, the GOA decided to submit a proposal to the Congress to renationalize Aerolinas Argentinas. "Let them decide whether the state should intervene or let the market determine that the airline go bankrupt," he said.

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Comment  
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¶24. (C) Zannini is the closest adviser to the Kirchners at present. His words reflect CFK's attitudes closely. He repeated the GOA party line on economic policy, indicating that the CFK administration will not adress fundamental and growing economic disequilibria any time soon. Nevertheless, he struck us as an earnest believer in social justice (and the Kirchners' political agenda as a way to achieve it) rather than a hard-edged ideologue. With Alberto Fernandez now gone, Zannini has become the most accessible member of the minscule "mesa chica" ("small table") where the key GOA decisions are made. His interest in social opportunity -- stemming from his history growing up in a lower class family and receiving government assistance to attend school is a key part of CFK's outlook too.

¶25. (C) Zannini's son's experience in Minnesota, however, seems to be the key factor in his willingness to engage with us. The favorable reports he got from the Land of 10,000 Lakes seem to have encouraged him to rethink his attitudes

towards our country, and over recent months when the

Ambassador has talked to him, Zannini has been noticeably more relaxed and open. His recent travel to Minnesota seems to have encouraged him to articulate admiration for aspects of American society, despite his upbringing in the anti-American milieu of Argentine leftism. His comments about his experience in the United States underscores the importance of exchanges in enhancing this government's understanding of the benefits a closer relationship with the United States could bring. End Comment.

WAYNE